

Property Assessment and Taxation in South Dakota

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What is the Property Tax?

- The property tax is an *ad valorem* tax on all property that has been deemed taxable by the South Dakota Legislature. *Ad valorem* refers to a tax imposed on the value of something (as opposed to quantity or some other measure). The property tax is the primary source of revenue for local governments. The State does not collect or spend any property tax revenue.
- SDCL 10-4-1. All **real property** in this state and the **property of corporations** existing or hereafter created, and the **property of all banks or banking companies** existing or hereafter created, except such as is hereinafter expressly excepted, **is subject to taxation**; and such property, or the value thereof, shall be entered in the list of taxable property for that purpose, in the manner prescribed in chapter 10-6.
- SD Constitution, Art. 11, § 2. To the end that the burden of **taxation may be equitable upon all property**, and in order that no property which is made subject to taxation shall escape, the Legislature is empowered to divide all property including moneys and credits as well as physical property into classes and to determine what class or classes of property shall be subject to taxation and what property, if any, shall not be subject to taxation. **Taxes shall be uniform on all property of the same class, and shall be levied and collected for public purposes only.** Taxes may be imposed upon any and all property including privileges, franchises and licenses to do business in the state. Gross earnings and net incomes may be considered in taxing any and all property, and **the valuation of property for taxation purposes shall never exceed the actual value thereof.** The Legislature is empowered to impose taxes upon incomes and occupations, and taxes upon incomes may be graduated and progressive and reasonable exemptions may be provided.

History of Property Taxes in South Dakota: A Brief Timeline of Events

- Pre-1977: Counties were to assess at market value, but in practice assessed at various levels depending on the type of property.
- 1977: Legislation was passed to require assessment at market value, but counties were given the authority to set taxable percentages (not to exceed 60% of assessed value). It was common for a much lower taxable value to be assigned to agricultural land.
- 1989: Major rewrite of the property tax laws through SB 12 and SB 15. Some of the changes included:
 - Removed the counties ability to set taxable percentages
 - Adjusted statutory levy limits
 - Established minimum assessment standards, such as all property must be assessed at 85% of its market value and coefficient of dispersion (COD) of less than 30.
 - Also, Governor Mickelson brought property tax freeze legislation that froze individual property tax bills for 2 years (pay '90 and pay '91). The legislation also required a 2-year study of the property tax system to find a "fix."
- 1992: The tax freeze expired without a "fix" for the property tax system. Property values were raised to at least 85% of market and state monies were withheld from counties that did not achieve this statutory requirement or failed to have a COD of less than 30.
- 1994: Initiated Measure 1 on the general election ballot. This measure would have limited assessment increases to a max of 1% annually or 1.25% annually if improved or transferred ownership. Failed by a narrow margin.
- 1995: Governor Janklow's Property Tax Reduction Act and revised State aid to education formula
 - Created "owner-occupied" classification which, along with agricultural property, received a 30% tax reduction phased in over pay '97, pay '99, and pay '01 taxes.
- 2008: HB 1005 passed, creating the Agricultural Productivity Methodology for assessing agricultural land.

**Step 1 –
Establishing the
Assessed Value of
Property**

- **The full and true (assessed) value of all property in the state is determined as of the legal assessment date which is November 1 prior to the assessment year (November 1, 2011 for the 2012 assessment year, taxes payable in 2013.**

Each Director of Equalization in the 66 counties in the State is to assess all real property within the county at the full and true value. Assessment notices are sent to the property owner on or before March 1 of each year.

**Step 2 –
Determine the
Taxable Value**

- **Determine the taxable value of the property.**

All property is to be assessed at full and true value. Then the property is equalized to 85% for property tax purposes. If the county is at 100% of full and true value, then the equalization factor (the number to get to the 85% taxable value) would be 0.85. (example: full and true value of \$120,000 x 85% = taxable value of \$102,000)

**Step 3 –
Establish the
Tax Rate**

- **Determine the tax levy for all taxing jurisdictions which can tax the property.**

Tax levies for each taxing jurisdiction are determined by dividing the tax levy request by the total taxable value within the taxing jurisdiction and multiplying the result by 1,000. For example, if the taxable value within a city is \$10,000,000 and the city has a tax levy request of \$100,000, the tax levy is computed as follows:

$$\begin{aligned}\text{Tax levy} &= (\text{tax levy requested divided by taxable value}) \times 1,000 \\ \text{Tax levy} &= (\$100,000 / \$10,000,000) \times 1,000 = \$10 \text{ per thousand}\end{aligned}$$

**Step 4 –
Compute
Taxes**

- **Taxes are computed for individual properties.**

Taxes are computed by multiplying the taxable value times the tax levy. For example, if the person has property with taxable value of \$102,000, the property taxes for city purposes would be computed as follows:

$$\begin{aligned}\text{Taxes} &= \text{taxable value (Tax levy divided by 1,000)} \\ \text{Taxes} &= \$102,000 \times (\$10 / 1,000) = \$1,020\end{aligned}$$

This same step is done for this property for each taxing district that can tax the property, such as county, city, school, fire district, etc. The sum would be the total property taxes due on the property.

**Step 5 –
Tax Bill**

- **Tax bills are sent to property owner.**

Taxes are due and payable January 1 of the year following assessment (2012 assessment, taxes are due and payable January 1, 2013). They do not become delinquent if one-half of the taxes are paid before May 1 and the remaining half paid before November 1. All property taxes are paid to the county treasurer in the county where the property is located.

Step 1 – Establishing the Assessed Value of Property

- Pursuant to state law, all property is to be assessed at its market (full and true) value. Market value is the amount the property would probably sell for if sold on the open market. SDCL 10-6-33. For Agricultural land, market value is defined as its “agricultural income value” as determined by the productivity methodology. SDCL 10-6-33.34.
- Value is determined using the three approaches to value:
 - Cost Approach: the estimated cost of replacing property (structures), taking into account the age and condition of the structure, then adding the value of the land.
 - $V = (RCN-D) + LV$
 - Marshall and Swift/Vanguard Cost Manuals
 - Market (Sales Comparison) Approach: comparing the property to similar properties that have recently been sold.
 - Income Approach: using the value of the projected income for a property to determine its value.
 - $V = I/R$
- Agricultural land is assessed using the productivity methodology.

Step 2 – Determining the Taxable Value

- For tax purposes, all property is equalized to 85% of its full and true value.
 - Examples:
 - County is at 100% full and true value. The equalization factor would be 0.85 ($0.85/1.00 = 0.85$). A property with an assessed value of \$120,000 would have a **taxable value** of \$102,000 ($120,000 \times 0.85 = 102,000$).
 - County is at 90% full and true value. The equalization factor would be 0.944 ($0.85/0.90 = 0.944$). A property with an assessed value of \$120,000 would have a **taxable value** of \$113,280 ($120,000 \times .944 = 113,280$).
- The Department of Revenue determines an equalization factor for each county and each class of property annually. SDCL §§ 10-3-41, 10-6-33.34, 10-12-42, 10-13-37.1.

Step 3 – Establishing the Tax Rate

- Tax levies for each taxing jurisdiction are determined by dividing the tax levy request by the total taxable value within the taxing jurisdiction and multiplying the result by 1,000.
 - Example: Taxable value within a municipality is \$10,000,000. The municipality has a tax request of \$100,000. The tax levy is computed as follows:
 - $(\$100,000 / \$10,000,000) \times 1,000 = \$10 \text{ per thousand (10 mills)}$

Levy Limits

- County levies
 - General \$12.00/thousand
 - Snow Removal/Emergency Disaster Fund \$1.20/thousand
 - Highway & Bridge Reserve \$1.20/thousand
 - Courthouse Building \$0.90/thousand
 - Ag Building \$0.30/thousand
 - Hospital Building \$0.60/thousand
 - Bond Redemption amount required
 - Secondary Road unlimited
 - Only applied to unorganized portion of county and not within a road district
 - Fire Fighting \$0.60/thousand
 - Railroad Authority \$2.40/thousand
 - Airport Authority \$2.40/thousand

Levy Limits

- County (special purpose)
 - Ambulance Districts \$0.60/thousand
 - Ambulance Capital Outlay \$0.50/thousand
 - Rural Fire Protection Dist. Capital Outlay \$0.60/thousand
 - Rural Fire Protection Dist. Maintenance \$1.00/thousand
 - Water Development Districts \$0.30/thousand
 - Water Project Districts \$1.00/thousand
 - Sanitary Districts \$27.00/thousand
 - Hospital Bond Payment \$0.60/thousand

Levy Limits

- Schools
 - General
 - AG \$2.090/thousand
 - OO \$4.296/thousand
 - Other \$9.200/thousand
 - Bond Redemption sufficient to pay P & I
 - Capital Outlay \$3.00/thousand
 - Liabilities \$6.00/thousand
 - Pension \$0.30/thousand
 - Special Ed \$1.552/thousand

Levy Limits

- Cities
 - General Purposes \$27.00/thousand
 - Bonded Indebtedness sufficient to pay P & I
 - Airport Purposes \$1.20/thousand
 - Not an additional levy; counts towards general purpose levy limit
- Townships
 - General \$3.00/thousand
 - Fire \$1.20/thousand
 - Snow Removal \$0.60/thousand
 - Fire and Snow Removal levies are in addition to General levy
- Other
 - Business Improvement Districts Special Assessment
 - Community Improvement Districts \$10.00/thousand

Step 4 – Computing the Tax

- Property taxes for individual properties are computed by multiplying the taxable value by the tax (mill) levy.
 - Example: Taxable value of property is \$102,000. The municipal tax levy is \$10 per thousand. Property tax on this property for city purposes would be:
 - $\$102,000 \times (\$10/1,000) = \$1,020$
 - This same computation is performed for each taxing jurisdiction that can tax the property, with the sum of all taxes for each taxing jurisdiction being the total property taxes due on the property.

Step 5 – Presenting the Tax Bill

- Property tax bills are sent out to all property owners of record and are paid to the County Treasurer of the county where the property is located. SDCL 10-21-1.1 specifies what information must be included on the tax bill.
- Property tax are due and payable (and become a lien against the property) on January 1 of the year following assessment. For example, for the 2012 assessment, taxes are due and payable January 1, 2013.
- Property taxes do not become delinquent if 50% of the taxes due are paid before May 1 and the remaining 50% are paid before November 1.

Assessment Process – Notice and Appeal

- November 1 is the legal assessment date.
 - SDCL 10-6-2. All real property subject to taxation shall be listed and assessed annually, but the value of such property is to be determined according to its **value on the first day of November** preceding the assessment.
- The Director of Equalization for each county must mail or transmit electronically a Notice of Assessment to each property owner in the county on or before March 1.
 - SDCL 10-6-50. The director of equalization shall mail or transmit electronically a notice of assessment to each property owner **not later than March first**. The secretary of revenue shall prescribe uniform information which shall be used by the director of equalization for notification of property owners as required by this section.

Assessment Process – Notice and Appeal

- Appeal process
 - Local Board of Equalization (township board of supervisors or governing body of municipality, plus a member of the school board). Appeal by mid-March; decision by end of March.
 - County Board of Equalization (county commissioners) hears appeals from local board decisions and appeals from property owners in unorganized territories. Appeal by first week of April; decision by first week of May.
 - Consolidated Board of Equalization (in lieu of Local & County Boards)
 - Office of Hearing Examiners (OHE). Appeal by mid-May.
 - Circuit Court
 - Appeal from County or Consolidated Board of Equalization must be made within thirty days of the published notice as required by SDCL 10-11-26.1 or the written notice that has been served on the property owner.
 - Appeal from OHE must be made within thirty days from receiving notice of OHE decision.

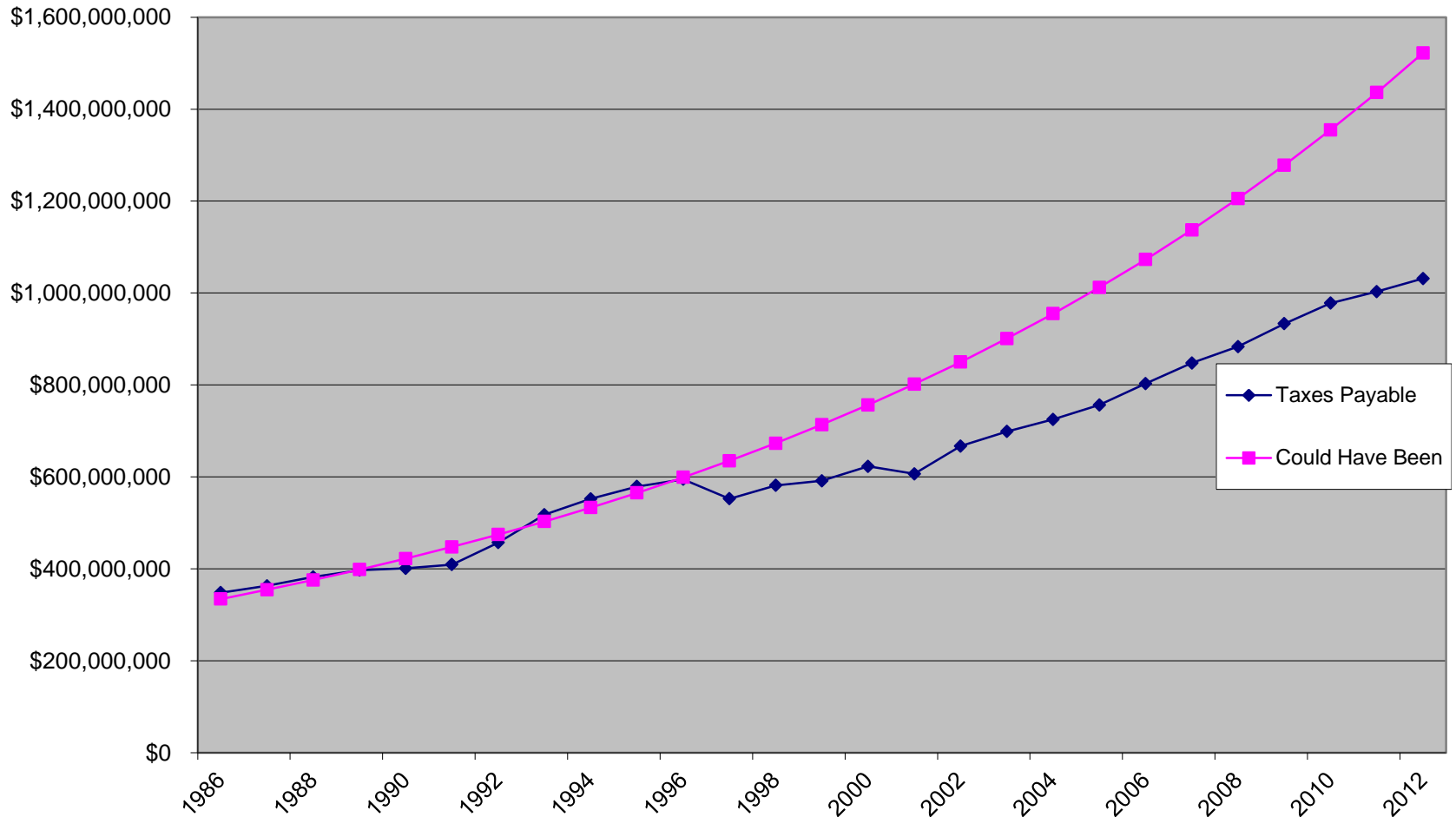
Property Tax Limitation System

- South Dakota has two independent systems that limit the growth of property taxes.
 - **State aid to education payments** replace property taxes for schools that would otherwise be paid by owners of agricultural property and owner-occupied houses.
 - **Property tax caps** limit the amount of property taxes that local governments can collect from property owners.

Property Tax Limitation System

- Property tax caps (continued)
 - Local governments are limited to the amount of property taxes they collected the prior year, PLUS an increase for inflation based upon the consumer price index or 3%, whichever is less, and growth (new construction within the taxing jurisdiction).
 - Example:
 - Municipality has a total property valuation of \$100 million and collected \$300,000 in property taxes by imposing a 3 mill tax levy last year. Current year CPI is 2% and residential development added \$1 million of new value (growth). Values of existing properties increased to \$109 million.
 - Municipality can increase its prior year tax request by 3% (2% for CPI + 1% for growth), or \$9,000, for a total current year request of \$309,000.
 - To prevent going over the cap, the tax rate applied to the \$110 million of property in the municipality (\$109 million of existing value + \$1 million of new growth) would be automatically lowered from 3 mills to 2.81 mills ($\$309,000 / \$110,000,000 \times 1,000 = 2.81$ per thousand)

Projected Historical Growth v. Actual Growth of Property Taxes since the Implementation of the SD Property Tax Limitation System



Effective Property Tax Rates of Select Municipalities

<u>City</u>	<u>Agricultural Effective Tax Rate</u>	<u>Owner- Occupied Effective Tax Rate</u>	<u>Other Effective Tax Rate</u>	<u>City</u>	<u>Agricultural Effective Tax Rate</u>	<u>Owner- Occupied Effective Tax Rate</u>	<u>Other Effective Tax Rate</u>
Aberdeen	1.20	1.66	2.06	Mobridge	1.50	2.33	2.90
Belle Fourche	1.07	1.76	2.16	Pierre	1.04	1.45	1.83
Brandon	1.05	1.50	1.89	Rapid City	1.21	1.44	1.85
Brookings	1.22	1.47	1.91	Redfield	1.06	2.70	3.32
Canton	0.94	1.82	2.20	Sioux Falls	0.96	1.37	1.81
Chamberlain	0.98	1.84	2.23	Sisseton	1.04	2.04	2.43
Dell Rapids	1.10	1.63	2.02	Sturgis	1.09	1.85	2.24
Flandreau	1.09	1.90	2.29	Vermillion	1.26	1.88	2.41
Hot Springs	1.26	1.75	2.14	Watertown	1.02	1.28	1.67
Huron	1.12	1.91	2.30	Webster	1.14	1.89	2.28
Madison	0.95	1.75	2.17	Winner	1.02	1.68	2.06
Milbank	1.15	1.63	2.01	Yankton	1.18	1.49	1.88
Mitchell	1.19	1.72	2.13	Statewide	1.01	1.45	1.84

Valuations by Category

For Taxes Payable in	Agricultural *	% of Total	Owner-Occupied	% of Total	Commercial	% of Total	Utilities	% of Total	TOTAL
1994	8,850,851,599	41.12			11,836,674,785	55.00	835,128,505	3.88	21,522,654,889
1995	9,356,952,742	40.53			12,837,129,438	55.60	894,913,766	3.88	23,088,995,946
1996	9,666,008,672	39.32			14,023,290,094	57.05	892,925,717	3.63	24,582,224,483
1997	9,259,272,144	37.93	7,858,629,904	32.19	6,303,119,711	25.82	993,262,603	4.07	24,414,284,362
1998	9,700,112,744	37.40	9,031,445,601	34.82	6,222,551,169	23.99	982,426,625	3.79	25,936,536,139
1999	10,114,313,818	36.92	9,654,685,197	35.24	6,580,244,560	24.02	1,045,087,867	3.81	27,394,331,442
2000	10,759,050,990	36.65	10,400,962,518	35.43	7,072,312,159	24.09	1,125,213,808	3.83	29,357,539,475
2001	11,062,162,236	35.93	11,177,769,905	36.30	7,445,797,194	24.18	1,106,170,590	3.59	30,791,899,925
2002	11,549,861,305	35.68	11,934,525,973	36.87	7,753,707,599	23.95	1,134,307,137	3.50	32,372,402,014
2003	12,277,695,126	35.43	13,038,052,643	37.62	8,212,742,597	23.70	1,126,545,169	3.25	34,655,035,535
2004	13,085,504,017	35.07	14,269,607,712	38.25	8,811,374,289	23.62	1,141,657,751	3.06	37,308,143,769
2005	14,015,749,247	35.03	15,523,846,537	38.79	9,362,992,929	23.40	1,113,225,824	2.78	40,015,814,537
2006	15,097,290,060	34.80	16,954,988,100	39.08	10,238,689,250	23.60	1,093,714,459	2.52	43,384,681,869
2007	16,427,689,981	34.54	18,633,455,339	39.18	11,336,818,639	23.84	1,158,792,774	2.44	47,556,756,733
2008	17,688,985,934	34.23	20,353,223,881	39.39	12,504,672,828	24.20	1,124,579,669	2.18	51,671,462,309
2009	19,058,117,169	34.49	21,687,103,039	39.25	13,334,072,762	24.13	1,169,829,792	2.12	55,249,122,762
2010	19,690,137,457	34.11	22,768,420,477	39.44	14,051,480,469	24.34	1,222,801,442	2.12	57,732,839,845
2011	19,691,529,066	33.38	23,726,031,354	40.22	14,345,035,001	24.32	1,222,426,811	2.07	58,985,022,232
2012	21,198,601,461	34.84	24,168,972,982	39.72	14,186,603,573	23.32	1,289,522,163	2.12	60,843,700,179

* Agricultural value includes AGY value for Pay 1995 thru pay 1998; includes NA-Z value for pay 2000 to present

Property Taxes: Who Pays?

Year Taxes are Payable	Agricultural	% Of Total	Owner-occupied	% Of Total	Commercial	% Of Total	Utilities	% Of Total	Special Assessments	% Of Total	TOTAL
1994	168,853,613	30.57			353,139,713	63.93	24,566,458	4.45	5,792,759	1.05	552,352,543
1995	175,731,718	30.34			371,764,189	64.18	25,738,309	4.44	6,026,244	1.04	579,260,460
1996	177,155,703	29.78	227,989,164	38.33	158,910,064	26.72	24,799,007	4.17	5,948,428	1.00	594,802,366
1997	146,728,901	26.55	191,658,393	34.68	176,930,052	32.02	30,657,682	5.55	6,597,665	1.19	552,572,695
1998	154,812,969	26.61	205,112,642	35.26	186,243,621	32.01	28,209,233	4.85	7,378,706	1.27	581,757,172
1999	154,433,143	26.10	203,873,029	34.46	195,619,643	33.06	29,712,277	5.02	8,011,655	1.35	591,649,747
2000	159,507,395	25.61	215,800,767	34.65	207,037,885	33.24	32,359,737	5.20	8,165,303.93	1.31	622,871,087
2001	151,921,309	25.04	212,091,514	34.96	204,708,863	33.74	29,235,927	4.82	8,783,549.72	1.45	606,741,163
2002	168,958,956	25.33	243,144,972	36.45	215,460,653	32.30	30,814,549	4.62	8,774,865.67	1.32	667,153,996
2003	176,354,349	25.24	258,757,664	37.03	222,277,922	31.81	31,052,406	4.44	10,279,052.77	1.47	698,721,394
2004	183,027,601	25.24	273,180,527	37.67	229,836,765	31.69	30,282,567	4.18	8,835,377.91	1.22	725,162,838
2005	190,743,858	25.21	289,985,539	38.32	236,891,146	31.31	28,975,635	3.83	10,120,766.02	1.34	756,716,943
2006	202,173,330	25.17	309,831,254	38.58	252,523,983	31.44	27,191,751	3.39	11,422,093	1.42	803,142,410
2007	211,381,559	24.93	330,332,434	38.96	267,236,569	31.52	25,266,119	2.98	13,675,583	1.61	847,892,758
2008	219,709,028	24.87	348,147,127	39.41	277,552,244	31.42	22,957,006	2.60	15,057,152	1.70	883,422,556
2009	231,587,046	24.81	368,765,290	39.51	292,805,927	31.37	23,025,217	2.47	17,091,242	1.83	933,274,722
2010	239,627,362	24.50	388,867,662	39.76	307,499,562	31.44	23,463,130	2.40	18,467,990	1.89	977,925,706
2011	240,496,832	23.97	403,337,138	40.21	312,194,141	31.12	22,646,984	2.26	24,485,447	2.44	1,003,160,542
2012	252,715,223	24.50	414,066,249	40.14	321,656,276	31.18	24,275,738	2.35	18,819,754	1.83	1,031,533,239

Property Taxes: Where does the Money Go?

For Taxes Payable In	County	% Of Total	Municipalities	% Of Total	Schools	% Of Total	Townships	% Of Total	Special Assessments	% Of Total	TOTAL
Pay 1994	118,831,783.00	21.51	55,737,706.00	10.09	363,995,381.00	65.90	7,994,914.00	1.45	5,792,759.00	1.05	552,352,543.00
Pay 1995	117,726,325.00	20.32	58,031,904.00	10.02	388,798,272.00	67.11	8,761,321.00	1.51	6,026,243.00	1.04	579,344,065.00
Pay 1996	127,707,478.00	21.47	59,501,041.00	10.00	393,055,072.00	66.08	8,590,347.00	1.44	5,948,428.00	1.00	594,802,366.00
Pay 1997	132,306,002.00	23.94	63,030,246.00	11.41	341,703,332.00	61.84	8,935,430.00	1.62	6,597,665.00	1.19	552,572,675.00
Pay 1998	138,413,304.00	23.79	66,159,294.19	11.37	359,703,611.50	61.83	10,102,256.60	1.74	7,378,706.13	1.27	581,757,172.42
Pay 1999	142,493,545.00	24.08	69,357,020.00	11.72	361,591,363.00	61.12	10,196,165.00	1.72	8,011,655.00	1.35	591,649,748.00
Pay 2000	147,698,194.74	23.71	72,234,893.06	11.60	384,503,303.42	61.73	10,269,391.49	1.65	8,165,303.93	1.31	622,871,086.64
Pay 2001	154,771,961.70	25.51	76,628,849.91	12.63	356,034,460.32	58.68	10,522,341.59	1.73	8,783,549.72	1.45	606,741,163.24
Pay 2002	165,080,172.03	24.74	81,296,731.49	12.19	400,493,843.04	60.03	11,508,383.36	1.72	8,774,865.67	1.32	667,153,995.59
Pay 2003	172,099,578.94	24.63	87,349,215.83	12.50	417,257,622.78	59.72	11,735,923.42	1.68	10,279,052.77	1.47	698,721,393.74
Pay 2004	182,029,759.26	25.10	92,005,242.69	12.69	430,465,019.66	59.36	11,827,438.59	1.63	8,835,377.91	1.22	725,162,838.11
Pay 2005	190,946,758.72	25.23	96,379,649.03	12.74	447,203,111.42	59.10	12,066,658.19	1.59	10,120,766.02	1.34	756,716,943.38
Pay 2006	201,763,441.09	25.12	102,625,075.87	12.78	475,005,461.62	59.14	12,326,338.96	1.53	11,422,092.91	1.42	803,142,410.45
Pay 2007	215,590,026.65	25.43	109,964,078.76	12.97	495,863,785.67	58.48	12,798,789.29	1.51	13,675,583.33	1.61	847,892,263.70
Pay 2008	231,487,473.04	26.20	116,772,551.54	13.22	506,618,292.21	57.35	13,487,087.45	1.53	15,057,151.84	1.70	883,422,556.08
Pay 2009	248,284,680.43	26.60	124,481,492.41	13.34	529,246,426.25	56.71	14,170,890.82	1.52	17,091,241.72	1.83	933,274,721.63
Pay 2010	267,475,362.85	27.35	131,066,116.47	13.40	546,181,893.81	55.85	14,734,342.49	1.51	18,467,990.01	1.89	977,925,705.63
Pay 2011	268,440,561.66	26.76	133,749,585.87	13.33	560,022,921.76	55.83	16,462,025.96	1.64	24,485,446.59	2.44	1,003,160,541.84
Pay 2012	281,180,298.77	27.26	139,272,205.75	13.50	574,213,936.82	55.67	18,047,044.42	1.75	18,819,753.71	1.82	1,031,533,239.44